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November 15, 2005

AGENDA ITEM 7

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

I. SUBJECT: Proposed Amendments to 2006 CCPOA and PORAC Health Benefits Plans

II. PROGRAM: Health Benefits

III. RECOMMENDATION: Staff recommends that the Board not approve the proposed amendments to the 2006 CCPOA and PORAC Health Benefits Plans.

IV. ANALYSIS:

Background

On June 15, 2005, the CalPERS Board of Administration approved the 2006 rates and benefit changes for the California Correctional Peace Officers' Association (CCPOA) Benefit Trust (Trust), and for the Peace Officers Research Association of California (PORAC) Trust. These approved rates were then incorporated into information materials for this year's Open Enrollment period which took place from September 15 to October 14, 2005.

CCPOA

- On August 9, 2005, CalPERS staff informed CCPOA, in a letter to CCPOA Trust Administrator Gerrit Buddingh, that because CalPERS was not the sponsor of the health plan provided by CCPOA, we could not include CCPOA's association plan within our application for the Medicare Part D employer subsidy. We also indicated that CalPERS could apply for the employer subsidy on behalf of the State of California, which is the sponsor of the CCPOA plan, if authorized by the Department of Personnel Administration (DPA) to do so.

- In a September 2, 2005, letter to DPA, CCPOA informed the State that it had elected the benefit enhancement option under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (MMA), effective January 1, 2006, for Medicare-eligible members. This meant that CCPOA would modify its 2006 Medicare coverage so that Medicare would be the primary payor for prescription drug coverage and CCPOA the secondary payor. CCPOA Medicare plan members would be required to enroll in Medicare

Part D through their carrier's (Blue Shield) Prescription Drug Plan (PDP). Otherwise, the CCPOA Medicare plan's prescription drug benefits will not change. As a result of this change, CCPOA informed DPA that its 2006 Medicare plan rates would be reduced.

- On September 14, 2005, CCPOA's Assistant Trust Administrator, Michael Smalley, delivered new proposed 2006 Medicare plan rates for CCPOA to CalPERS. The previously approved Basic plan rates were unchanged, but the new Medicare rates were reduced as follows:

CCPOA Medicare Plan Rates				
Board Approved for 2006			**New CCPOA Proposal for 2006**	
	North	South	North	South
Single	$268.50	$268.50	$218.50	$218.50
2-party	$537.00	$537.00	$437.00	$437.00
Family	$794.46	$750.07	$694.46	$650.07

- On October 5, 2005, CalPERS health program and legal staff met with the CCPOA Assistant Trust Administrator and CCPOA's benefits consultant to discuss the implications of its Medicare plan change, including concern about the potential impact of AB 587, which was subsequently signed by the Governor later that day. This CalPERS-sponsored legislation specified that any CalPERS members enrolled in a PDP, with the exception of members enrolled in a Medicare Advantage plan (i.e., Kaiser), would not be able to participate in the CalPERS health program.

PORAC

- On or about October 10, 2005, PORAC informed CalPERS staff that it would also like to elect the benefit enhancement option under the MMA, effective January 1, 2006, for its Medicare-eligible members. This means PORAC, like CCPOA, would modify its 2006 Medicare coverage so that Medicare would be the primary payor for prescription drug coverage and PORAC the secondary payor. PORAC Medicare plan members would be required to enroll in Medicare Part D through their carrier's (Blue Cross) PDP. Otherwise, the PORAC Medicare plan's prescription drug benefits will not change.

- On October 31, 2006, Blue Cross provided the new proposed 2006 Medicare plan rates for PORAC to CalPERS. The previously approved Basic plan rates were unchanged, but the new Medicare rates were reduced as follows:

PORAC Medicare Plan Rates		
Board Approved for 2006		**New PORAC Proposal for 2006**
Single	$399.00	$294.00
2-party	$748.00	$588.00
Family	$950.00	$882.00

Analysis

Rationale for Medicare Plan Rate Change

CCPOA decided to make this change after receiving notification from CalPERS and DPA that the State of California, not CalPERS, would be considered the plan sponsor of CCPOA's health benefit plans. This notification occurred after the Board approved CCPOA's 2006 rates at its June 15, 2005, meeting.

For both CCPOA and PORAC, their Trustees determine how each separate Trust is operated. The Centers for Medicare and Medicaid Services (CMS) only recently finalized its Medicare Part D regulations, so CCPOA and PORAC staff and benefit consultants did not have the information necessary to present a complete set of options for 2006 to their Trustees of each trust until mid-September.

The CCPOA Trust then decided that pursuing the subsidy option was not a cost-effective action given the small number of current Medicare plan enrollees (172 as of September 1, 2005). The PORAC Trust decided in early October to follow the advice of its independent consultant who recommended the same path forward as that recommended to CCPOA for current Medicare plan enrollees (591 as of September 1, 2005). (*Note: As of the November 3, 2005, neither the CCPOA nor the PORAC Trustees have officially voted on the proposed 2006 rate changes as set forth in this item.)*

Due to the State's retiree contribution for health benefits, the CCPOA Medicare plan rate adjustment accomplishes a result similar to the employer's receipt of the subsidy. The employer, the State of California, will see an immediate retiree contribution reduction as a result of the reduction in the CCPOA Medicare rates. The rates proposed by CCPOA are lower than the upper limits of the current employer contribution as determined by the 100/90 formula.

The rates proposed by PORAC are also lower than the upper limits of the current State employer contribution as determined by the 100/90 formula. However, the majority of employers in the PORAC plan are public agencies, and the 100/90 formula does not apply, so the savings may go directly to the enrollee depending on the individual employer contribution at each public agency.

Administrative Issues

- CCPOA and PORAC Medicare plan members will have the same prescription drug benefits previously approved by the CalPERS Board at the June 2005 meeting. Although members will enroll in an individual PDP plan via the respective health plans, there will be no change to the pharmacy network, prescription drug co-payments, or the formulary. In terms of using the CCPOA or PORAC prescription drug benefits, this change will be transparent to their Medicare plan members.

- CCPOA and PORAC will require Medicare- eligible members to enroll in Part D through the health plans via a paper application (to ensure CMS-required information is collected). Medicare-eligible members who do not enroll in Medicare Part D will not be able to enroll in the CCPOA or PORAC health plan.

- CCPOA and PORAC will work with their respective health plan to prepare all necessary member notification regarding this change. CCPOA, PORAC, and the health plans (Blue Shield and Blue Cross) will have trained staff available to respond to member questions about this change.

- A special enrollment will be required if the Board were to approve the proposal by CCPOA and PORAC. CCPOA and PORAC have indicated that they will reimburse CalPERS for any administrative costs related to holding a special enrollment period after the end of this year's Open Enrollment period. We expect these costs to be minimal.

Impact of AB 587

Per the MMA and corresponding CMS Medicare Part D regulations, the employer subsidy is not available for any Medicare-eligible members who enroll in a PDP. CalPERS sponsored AB 587 to maximize participation in the subsidy program and to prevent issues in attempting to coordinate benefits with members enrolled in a separate PDP. The Board approved staff's recommendation to sponsor this bill at its April 2005 meeting.

The bill was enrolled on September 6, 2005, and signed by the Governor on October 5, 2005. As a result, enrollment in the CalPERS health program will be restricted to Medicare-eligible members who do not enroll in an individual Medicare Part D PDP. (Kaiser members enrolled in the Senior Advantage health plan are exempted from AB 587's provisions.)

Enforcement of AB 587 could cause members who enroll in Medicare Part D as part of a PDP to lose eligibility to participate in a Public Employees' Medical and Hospital Care Act (PEMHCA) plan. Under PEMHCA, a State retiree member who loses eligibility to participate in PEMHCA would also lose the employer 100/90 contribution and the Public Agency retiree members in PORAC may also face a loss of the employer contribution. It should be noted that in the event that the CCPOA and/or PORAC Medicare plans do not meet PEMHCA requirements, their Basic plans could also be in jeopardy since PEMHCA requires that a viable Medicare plan must be available everywhere a Basic plan is offered.

As noted above, CalPERS intent in sponsoring AB 587 was to maximize the amount CalPERS would collect pursuant to the subsidy and to prevent issues that could occur in attempting to coordinate benefits with members who enrolled in a separate PDP. Only after the bill was enrolled did we become aware of CCPOA and PORAC's decision to require their Medicare members enroll in an individual PDP.

Recommendation

Staff understands that CCPOA and PORAC have proposed this option with the best of intentions in order to provide a cost savings to retiree members. However, staff recommends that the Board not approve CCPOA and PORAC proposed amendments to their 2006 Medicare rates until the legislation and supporting administrative functions can be appropriately adjusted to eliminate any negative impact to members.

Should CCPOA and/or PORAC seek a legislative amendment to address the impact concerns, staff will bring the proposed amendment to the Board for comment and reconsideration of the proposed rate change.

V. STRATEGIC PLAN:

This item supports CalPERS Strategic Plan, Goal III: "Design, develop and administer benefits programs and business processes that are innovative, effective, efficient, and valued by our members, employers and stakeholders."

VI. RESULTS/COSTS:

Implementation of this action would require CalPERS to hold a special enrollment for these association members outside of the normal Open Enrollment Period. Such special enrollments are few and far between and are usually reserved for crisis situations (bankruptcy of plans; financial insolvency of school districts). Since CalPERS costs associated with this item are not included in the annual budget of the Health Benefits Branch, the costs of undertaking and completing a special enrollment of this type should be borne by the associations.

Staff is available to respond to any questions.

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